THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

FINANCIAL STATEMENTS

DECEMBER 31, 2012

P&N Postlethwaite & Netterville

A Professional Accounting Corporation

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority

We have audited the accompanying financial statements of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) which comprise the statements of net position as of December 31, 2012 and 2011, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Louisiana Municipal Natural Gas Purchasing and Distribution Authority as of December 31, 2012 and 2011, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reports Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report, dated June 3, 2013, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control or on compliance. This report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The combining statements included on pages 20 and 21 are presented for purposes of additional analysis of the combined financial statements rather than to present the financial position, results of operations and cash flows of the individual funds, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 3, 2013

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

The Management's Discussion and Analysis of the Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority) presents a narrative overview and analysis of the Authority's financial activities for the years ended December 31, 2012 and 2011. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. We encourage readers to consider the information presented here in conjunction with the Authority's financial statements, which follow this section.

Financial Highlights

On August 1, 2006 the Authority issued revenue bonds series 2006 totaling $223,705,000, the proceeds of which were used to finance the prepayment of natural gas purchases for a term of 10 years and the related project costs for certain participating municipalities. All activity for this project is referred to and accounted for as the LMNGA Gas Project No. 1 (the Project) which is issued and secured under a trust indenture. The Authority's traditional gas purchase and sale activity with members is referred to as the Requirements Gas Fund. The activities and financial position of the Authority are presented in these financial statements while the separate activities of the Requirements Gas Fund and LMNGA Gas Project No. 1 are presented separately as supplemental information on pages 20 and 21.

- The LMNGA Gas Project No. 1 is structured such that the bond proceeds were used to purchase the delivery of specific natural gas quantities at fixed prices over the 10 year term of the Project. The Project also entered into a commodity swap agreement to effectively convert the price to be paid for the delivery of natural gas for a fixed price to a market index based price. The purpose of the Project is to enable members participating in the Project to purchase natural gas at a discount of the otherwise market index based prices.
- The assets of the Authority exceeded its liabilities at December 31, 2012 by $3,693,888 compared to $3,646,236 as of December 31, 2011, which is a 1.3% increase over the previous year. Increase in net position results primarily from the current year operations of the Project as it is designed to accumulate excess revenues in the initial years, which are to be utilized to meet cash flow needs in later years.
- At December 31, 2012, the Authority's assets totaled $100,756,329, which consisted primarily of prepaid gas purchases, accounts receivable and investments, as compared to a balance of $124,582,699 at December 31, 2011. This decrease directly relates to utilization of the prepaid natural gas for LMNGA Gas Project No. 1 as discussed below.
- The Requirements Gas Fund purchases and resells gas to members under short term purchase commitments or based on current market prices. The Requirements Gas Fund total gas purchases and sales were $12,512,819 and $21,353,218 during the years ended December 31, 2012 and 2011, respectively. The decrease from the prior year is primarily a result of the decrease in market based natural gas prices during 2012.
- Gas sales for the LMNGA Gas Project No. 1 were $15,111,400, and are comprised of $5,237,103 of income recognized on the commodity swap accretion of the prepaid gas purchase asset and $9,874,297 of gas sales, for the year ended December 31, 2012. In the prior year, gas sales for the Project were $19,832,126, comprised of $6,442,514 recognized on the swap accretion and $13,389,612 of gas sales. These sales figures are netted in the operating revenues by $739,004 and $740,353 of discounts given to participants in the prepay program for the years ended December 31, 2012 and 2011, respectively.

Overview of the Financial Statements

This financial report consists of Management's Discussion and Analysis and the basic financial statements. The basic financial statements also include notes to the basic financial statements, which explain some of the information in the basic financial statements in more detail.

The basic financial statements of the Authority report information about the Authority using accounting methods similar to those used by the private sector. The Authority's financial statements include its activity in the Requirements Gas Fund and the activity of the Project. The Statements of Net Position include all of the Authority's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's members and creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority. All of the years' revenues and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the Authority's operations over the year and can be used to determine whether the Authority has successfully recovered all its costs through its operating revenue, profitability and credit worthiness. The final required basic financial statements are the Statements of Cash Flows. The primary purpose of these statements is to provide information about the Authority's cash receipts and cash payments throughout the year. These statements report cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities.

Financial Analysis of the Authority

The Statements of Net Position and the Statements of Revenues, Expenses and Changes in Net Position report information in a way that the reader can determine if the Authority is in a better financial position as a result of the year's activities. These statements report the net position of the Authority and changes in them. The net position (difference between assets, deferred outflows, deferred inflows and liabilities) can be used to measure financial health or financial position. Over time, increases and decreases in the Authority's net position are one indicator as to whether its financial health is improving or deteriorating. There are other non-financial factors to consider, such as changes in economic conditions, judicial environment, and new or changed government legislation.

Condensed Statements of Net Position

	December 31, 2012	December 31, 2011
Total assets	$ 100,756,329	$ 124,582,699
Deferred outflows	-	-
Total liabilities	97,062,441	120,936,463
Deferred inflows	-	-
Net position	$ 3,693,888	$ 3,646,236

Overview of the Financial Statements (continued)

At December 31, 2012, the Authority's assets consist primarily of prepaid gas purchases, investments, and accounts receivable from member municipalities throughout Louisiana. At December 31, 2012, accounts receivable decreased by 15% from the prior year due to decreased prices and lower volume compared to December of the prior year. A similar decrease in accounts payable for gas purchases was experienced in the end of 2012.

The Authority had debt outstanding of $93,680,000 at December 31, 2012 and $116,300,000 at December 31, 2011 consisting primarily of revenue bonds related to the Project. The Authority also has short term lines of credit available to fund working capital needs during high demand periods. There were no borrowings as of December 31, 2012 and 2011. Repayment of principal and interest on the revenue bonds related to Gas Project No. 1 began in August, 2007 and scheduled to continue through August, 2016.

Condensed Statements of Revenues and Expenses for the Years Ended December 31:

	2012	2011
Operating revenues and interest income	$ 28,070,200	$ 41,769,264
Operating expenses	28,022,548	41,582,321
Change in net position	$ 47,652	$ 186,943

The Authority experienced an excess of revenues over expenses in 2012 and 2011. During the year ended December 31, 2012, the Authority reported operating revenues and interest income of $28,070,200, which reflected revenue from both the LMNGA Gas Project No. 1 Fund and the Requirements Gas Fund. The Authority reported total expenses $28,022,548, which consist primarily of the cost of natural gas purchased from vendors and interest expense.

Requests for Information

This financial report is designed to provide members, investors, and creditors with a general overview of the Authority's finances, as well as demonstrate accountability for funds the Authority receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Louisiana Municipal Natural Gas Purchasing and Distribution Authority, P.O. Box 4327, Baton Rouge, Louisiana 70821 or 225-344-5001.

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF NET POSITION DECEMBER 31, 2012 AND 2011

ASSETS AND DEFERRED OUTFLOWS

	2012	2011
Current assets:		
Cash and cash equivalents	$ 2,545,162	$ 394,967
Accounts receivable, net	5,863,478	6,900,420
Investments, at fair value	4,224,518	6,601,359
Accrued interest receivable	75,114	79,474
Prepaid insurance	11,090	10,106
Prepaid natural gas purchases, current portion	22,675,245	22,388,728
Total current assets	35,394,607	36,375,054
Other assets:		
Investments, restricted, at fair value	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	310,891	481,567
Prepaid natural gas purchases	63,445,673	86,120,920
Total other assets	65,361,722	88,207,645
Total assets	100,756,329	124,582,699
Deferred outflows	-	-
Total assets and deferred outflows	$ 100,756,329	$ 124,582,699

The accompanying notes are an integral part of these basic financial statements.

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION

	2012	2011
Current liabilities:		
Accounts payable and other liabilities	$ 1,619,251	$ 2,447,548
Interest payable	1,763,190	2,188,915
Bonds payable, current portion	22,645,000	22,620,000
Total current liabilities	26,027,441	27,256,463
Long-term liabilities:		
Bonds payable	71,035,000	93,680,000
Total liabilities	97,062,441	120,936,463
Deferred inflows	-	-
Net position - unrestricted	372,460	410,593
Net position - restricted bond indentures	3,321,428	3,235,643
Total net position	3,693,888	3,646,236
Total liabilities, deferred inflows and net position	$ 100,756,329	$ 124,582,699

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Operating revenues:		
Gas sales	$ 27,624,219	$ 41,185,344
Membership dues	493,452	600,620
Legal fees billed	54,763	66,354
Late charges	1,812	3,548
Less: prepay/member discount	(739,004)	(740,353)
Total operating revenues	27,435,242	41,115,513
Operating expenses:		
Cost of natural gas	22,361,736	34,720,554
Purchase agent fee	328,952	400,411
Management fee	136,840	165,886
Interest expense	4,998,222	6,052,932
Legal and professional fees	134,117	134,287
Bad debt expense	-	67,667
Miscellaneous expenses	54,089	31,992
Arbitrage tax expense	8,592	8,592
Total operating expenses	28,022,548	41,582,321
Operating loss	(587,306)	(466,808)
Other revenues:		
Interest income	634,958	653,751
Change in net position	47,652	186,943
Net position, beginning of year	3,646,236	3,459,293
Net position, end of year	$ 3,693,888	$ 3,646,236

The accompanying notes are an integral part of these basic financial statements.

THE LOUISIANA MUNICIPAL NATURAL GAS PURCHASING AND DISTRIBUTION AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash flows from operating activities:		
Operating loss	$ (587,306)	$ (466,808)
Amortization of deferred financing costs, included in interest expense	170,676	207,330
Amortization of prepaid gas purchases	22,388,730	21,938,968
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Change in accounts receivable	1,036,942	1,538,515
Change in prepaids	(984)	-
Change in accounts payable and other liabilities	(828,297)	(1,213,865)
Change in interest payable	(425,725)	(423,089)
Net cash provided by operating activities	21,754,036	21,581,051
Cash flows from investing activities:		
Proceeds from sale of investments	2,376,841	356,729
Interest income received	639,318	654,605
Net cash provided by investing activities	3,016,159	1,011,334
Cash flows from financing activities:		
Payments on bonds payable	(22,620,000)	(22,480,000)
Net cash used in financing activities	(22,620,000)	(22,480,000)
Net change in cash	2,150,195	112,385
Cash, beginning of year	394,967	282,582
Cash, end of year	$ 2,545,162	$ 394,967
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 4,831,906	$ 5,846,456

The accompanying notes are an integral part of these basic financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority or LMNGA) is a quasi-public corporation and an instrumentality of the State of Louisiana, created on November 23, 1987 pursuant to La. R.S. 33:4546.1 et seq. for the purpose of purchasing and distributing natural gas to participating municipalities and political subdivisions.

On August 1, 2006, the Authority entered into the LMNGA Gas Project No. 1, whereby the Authority acquired natural gas supplies for participating municipalities utilizing a commodities swap transaction for a period of ten years in order to supply a portion of the natural gas purchases to participating municipalities. In conjunction with this transaction, the gas supplies were purchased with the proceeds of the $223,705,000 from the LMNGA Revenue Bonds, Series 2006.

(a) Basis of Accounting

The Authority's LMNGA Gas Project No. 1 Fund as well as the Requirements Gas Fund are considered to be proprietary type funds and are combined and presented as a single business type activity.

As a proprietary fund, the Authority's operations are accounted for using a flow of economic resources, measurement focus and the accrual basis of accounting. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of operating income and changes in net position is necessary or useful to sound financial administration. Under this method of accounting, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The operating statements present increases (revenues) and decreases (expenses) in net position. The Authority maintains two proprietary funds, which are enterprise funds. These funds are maintained separately as a result of the requirements of the bond indenture.

The financial statements of the Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent they have been made authoritative under Governmental Accounting Standards Statement (GASB) 62, Codification of Accounting and Financial Reporting Guidance contained in Pre-November 30, 1989 FASB and AICPA pronouncements.

(b) Net Position

The Fund has implemented GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, effective fiscal year 2012. This standard provides guidance for reporting the financial statement elements of deferred outflows of resources and deferred inflows of resources. Deferred outflows represent the consumption of the government's net position that is applicable to a future reporting period. A deferred inflow represents the acquisition of net position that is applicable to a future reporting period.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Net Position (continued)

Because deferred outflows and deferred inflows are, by definition, neither assets nor liabilities, the statement of net assets title is now referred to as the statement of net position. The statement of net position reports net position as the difference between all other elements in a statement of net position and should be displayed in three components—net investment in capital assets, restricted net position (distinguishing between major categories of restrictions), and unrestricted net position.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of borrowings for capital asset acquisition, construction, or improvement of those assets, increased by deferred outflows of resources attributable to capital asset acquisition, construction or improvement, and deferred inflows of resources attributable to either capital asset acquisition, construction, or improvement or to capital asset related debt. Capital-related debt or deferred inflows equal to unspent capital asset related debt proceeds or deferred inflows of resources is included in calculating either restricted or unrestricted net position, depending upon whether the unspent amounts are restricted.

Restricted net position is when there are limitations imposed on their use by external parties such as creditors, grantors, laws or regulations of other governments. Restricted net position consists of restricted assets less liabilities related to restricted assets less deferred inflows related to restricted assets. Liabilities and deferred inflows related to restricted assets include liabilities and deferred inflows to be liquidated with restricted assets and arising from the same resource flow that results in restricted assets. When both restricted and unrestricted resources are available for use, it is Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

Unrestricted net position is the balance of all other elements in a statement of net position remaining after net investment in capital assets and restricted net position.

(c) Allowance for Uncollectible Accounts

Management of the Authority assesses the status and collectability of accounts receivable and believes all accounts receivable are collectible based upon favorable history over a substantial period of time; therefore, an allowance for uncollectible accounts has not been provided.

(d) Deferred Financing Costs

Deferred financing costs represent various costs incurred in conjunction with the issuance of the 2006 Revenue Bonds. These costs are deferred and amortized over the life of the indebtedness based upon the principal amounts of the bonds outstanding, which approximates the interest method.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

(e) Investments

Under the provisions of the LMNGA Gas Project No. 1, the Authority is required to establish and maintain certain reserve accounts. In accordance with the Indenture of Trust between the Authority and its Trustee, portions of these reserve accounts can be temporarily invested in guaranteed interest contracts. Investments are classified as current and long term resulting from payment requirements stated in the bond indenture.

Provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools,* permits the recording of guaranteed interest contracts at cost if the contributions are non-participating. Non-participating contracts are those non-negotiable and non-transferable and redeemable at contract or stated value rather than fair value based on current market rates. All of the Authority's investment contracts are non-participating and are therefore reported at cost, which are deemed to approximate fair value.

(f) Prepaid Gas Purchases

Prepaid natural gas purchases represent a ten year supply contract for natural gas beginning August 1, 2006, which was purchased for participating members to be sold to such members in accordance with gas sales contracts. These original purchases consisted of approximately 30,000,000 MMBtu (one million British Thermal Units) of natural gas and were purchased through a commodities transaction. These natural gas purchases are valued and recorded at cost less amortization for the value of deliveries of gas volumes in the accompanying statements of net position. The cost of this contract is capitalized and amortized ratably based upon deliveries of contractual volumes and unit prices of future gas supply arrangements.

(g) Purchase Agent Fee

The Authority has two contracts with a gas management firm to act as the exclusive agent to purchase natural gas for the Authority for the Requirements Fund. The contracts are for a five (5) and ten (10) year period, which expires April 30, 2013 and July 30, 2016, respectively.

(h) Management Fee

The Authority contracts with the Louisiana Municipal Association (LMA) to manage the affairs of the Authority. Under this agreement, LMA provides the Authority an Executive Director and other personnel necessary to carry out the functions of the Authority and its membership. The Authority's Board of Directors and Executive Committee administer and establish policies for the management of the Authority. For the years ended December 31, 2012 and 2011, amounts paid to LMA by the Authority related to this management fee totaled $136,840 and $165,886, respectively. The agreement is for a five (5) year period ending April 30, 2013.

(i) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

(j) Revenues

For the Requirements Gas Fund, the Authority purchases natural gas for its members and bills them for the cost of the gas plus a fee per unit of natural gas purchased. This fee comprises the Authority's membership dues. Accordingly, receivables from the members and payables to the vendors are generated when gas is delivered into the respective pipelines. The membership dues collected from members are allocated entirely to pay the aforementioned purchase agent and management fees and other operating costs of the Authority.

For the LMNGA Gas Project No. 1 Fund, the Authority bills participating members monthly based upon gas sales contracts entered into with each member for the ten year period which the project covers.

(k) Operating/Non-Operating Revenue and Expenses

Operating revenues consist of gas sales, membership dues, legal fees billed and late charges assessed as these revenues are generated from the Authority's operations and are needed to carry out its statutory purpose. All expenses incurred for that purpose are classified as operating expenses. Interest income and other revenues and expenses which are ancillary to the Authority's statutory purpose are classified as non-operating.

(l) Income Taxes and Arbitrage Tax

The Authority is exempt from income taxes under Sections 7701 and 115(1) of the Internal Revenue Code. As discussed in Note 8, the LMNGA Gas Project No. 1 is subject to arbitrage rebate obligations to the U.S. Government to maintain a tax exempt status.

(m) Derivatives

In conjunction with the LMNGA as Project No. 1, the Authority has entered into two derivative contracts, including an interest rate swap which serves to essentially fix the rate of interest on its variable rate bonds, as well as a commodity prices hedge to convert the price of gas quantities acquired under a commodities purchase agreement from a fixed price to a variable market indexed based price. In accordance with current GASB standards, no related assets or liabilities related to the fair value of these derivative contracts are recorded in the basic financial statements, but the estimated fair market values are disclosed in the accompanying notes to the basic financial statements.

2. **CASH AND INVESTMENTS**

For reporting purposes, cash and cash equivalents include cash on hand, demand deposits, unrestricted money market accounts and all highly liquid investments with an original maturity of three months or less. Cash and cash equivalents are stated at cost, which approximates fair value.

2. CASH AND INVESTMENTS (continued)

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority's investments are held by the custodial bank as an agent for the Authority, in the Authority's name, and are thereby not exposed to custodial credit risk.

Pursuant to Louisiana Revised Statute of 1950, as amended, the Authority may invest in obligations of the U.S. Treasury, U.S. Agencies and instrumentalities that are guaranteed by the U.S. Government or U.S. Government Agencies, repurchase agreements, certificates of deposit as provided by the statute mentioned above, and other investments as determined by the terms of bond trust indentures.

Concentration of Credit Risk. Concentration of credit risk relates to the risk of loss attributed to the magnitude of the Authority's investment in a single issuer. At December 31, 2012 primarily all investments are consist of guaranteed investment contracts and are with a single issuer.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the estimated fair value of an investment. Investments are primarily composed of guaranteed interest contracts and, therefore, minimal exposure to interest rate risk.

During 2006 the Authority established certain reserve funds in connection with LMNGA Gas Project No. 1 as stipulated in the related contractual agreements. These reserves are pledged as collateral for all bond related payments, including principal and interest payments due each bond year which ends each July 31. These funds are restricted for their stated purpose by the bond indenture agreements.

As of December 31, 2012 and 2011, the Authority had the following investments:

	2012 Estimated Fair Value	2011 Estimated Fair Value
Money market accounts	$ 53,982	$ 13,585
Guaranteed Investment Contracts issued by JPMorgan Chase		
5.163% Due 7/30/16	4,170,536	6,587,774
5.086% Due 7/30/16	1,605,158	1,605,158
Total	$ 5,829,676	$ 8,206,517

The guaranteed investment contracts (GICs) are unsecured contracts which cannot be sold or traded. Redemption of these investments depends solely on the financial condition of JPMorgan Chase which provides the contracts, and its ability to honor their obligations. According to the terms of the bond indenture, the Authority is required to maintain certain account balances in a reserve account which have therefore been classified in the accompanying basic financial statements as restricted assets.

3. PREPAID NATURAL GAS PURCHASES

In an effort to reduce the fluctuations and variability of natural gas supply and prices to its members, the Authority developed the Prepaid Gas Program (LMNGA Gas Project No. 1). Under the Program, the Authority has entered into natural gas supply agreements with participating Louisiana municipalities (the Participants) whereby the participants will purchase minimum natural gas volumes from the Program over a 10 year period. The Authority has also entered into a commodity price hedge agreement with a commodity counterparty for the same 10 year term to effectively convert the gas purchased by the Authority under the prepaid gas supply agreement from a fixed price basis to a market indexed based price. In order to fulfill these minimum member purchase commitments, on August 1, 2006 the Authority entered into a Purchase Agreement, with JPMorgan Ventures Energy Corporation, and several related contracts, to procure contractually agreed upon natural gas volumes at fixed prices over a term of ten years. JPMorgan Chase also guarantees the performance obligation under the Purchase Agreement. The Authority has converted the price of natural gas under the Purchase Agreement to an index-based price by entering into a commodity price hedge with BNP Paribas for a period equal to that of the Purchase Agreement. This commodity swap agreement is intended to reduce the Authority's, and ultimately participating municipalities', exposure to fluctuations in price of natural gas over the term of the Program. See Note 4.

The natural gas Purchase Agreement was entered into at inception of the Program for a total $218,371,000 for the purchase of approximately 30 million MMBtu of natural gas. These purchases were funded by bonds issued by the Authority, which are described in Note 5. The cost of the gas purchase agreement is charged to cost of natural gas in the financial statements as natural gas is delivered in accordance with terms of the agreement. For the years ended December 31, 2012 and 2011, included in the cost of natural gas expense in the statement of revenues, expenses and changes in net position was $22 million and $22 million, respectively, related to the consumption and amortization of the prepaid gas purchase. As further described in Note 4, the Program also entered into gas commodity price hedge agreements intended to convert the prepaid gas purchased at a fixed price to a market-index based price. The monthly settlement of this gas price hedge agreement is accounted for to convert the amortization of the prepaid gas purchase to a market index price by netting the cost of natural gas purchase reflected in the statements of revenue, expenses, and changes in net position. As of December 31, 2012, prepaid gas purchases to be delivered within 12 months are considered to be current assets totaling $22,675,245 and gas deliveries due beyond one year totaled $63,445,673.

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS

In order to convert the price of natural gas acquired pursuant to the above mentioned Purchase Agreement from a fixed price to a market index based price, the Authority entered into the commodity price hedge for identical gas quantities and term of the prepaid gas purchase agreement. The fair value of the outstanding derivative at December 31, 2012 and 2011 is estimated to be an asset of approximately $47 million and $59 million, respectively. The impact of executing the derivative agreement coupled with the effect on the natural gas asset results in an overall impact to the prepaid natural gas asset basis approximating fair value.

4. PURCHASE COMMITMENTS AND SIGNIFICANT RISK CONCENTRATIONS (continued)

The prepaid gas purchase agreement and swap agreement exposes the Authority to credit risk, in the event the counterparties are unable to fulfill their obligation. The commodity swap agreement requires collateral to be posted in varying amounts depending on the counterparty's credit rating. As of December 31, 2012, the counterparty was rated as A2 according to Moody's and A+ according to Standard & Poor's and was required to pledge a U.S. Treasury note with a market value of approximately $1.1 million as additional collateral under the terms of the agreements. Management continues to evaluate the counterparty credit risk and associated collateral requirements as well as potential credit deterioration in all financial institutions due to overall economic conditions.

On August 1, 2006, in conjunction with the LMNGA Gas Project No. 1, as discussed in Note 3, the Authority also entered into a Purchase Agreement for purchase and sale of natural gas. Related to this program, the Authority has entered into corresponding gas supply contracts with certain participating members to purchase natural gas from the Authority in volumes corresponding to the Authority's Purchase Agreement commitment. The Prepaid Gas Program is also dependent on participating members honoring their respective gas purchases commitments.

The Authority has entered into significant agreements for which it is dependent on the performance counterparties to meet their contractual obligations. The Authority has entered into guaranteed investment contracts and with JP Morgan Chase for a long term prepaid natural gas supply contracts with JP Morgan Ventures Energy Corporation whose performance is also guaranteed by JP Morgan Chase. The Authority has also entered into a commodity price hedge agreement with BNP Paribas Bank over the same term of the prepaid gas program.

For the Requirements Gas Fund, the Authority routinely enters into short term gas purchase commitments with various vendors in the ordinary course of business. The purchase commitments usually include the volume of gas to be purchased and the purchase price of these volumes. The Requirements Gas Fund bills its members based on the actual cost of gas incurred. During 2012, the Requirements Gas Fund purchased approximately 65% of its gas purchases from two vendors, which individually comprised purchases of 40% and 25%, respectively. During 2011, the Requirements Gas Fund purchased approximately 64% of its gas purchases from two vendors.

Management continually monitors the financial condition of the counterparties and believes the counterparties currently have the ability to meet their obligations under the respective agreements. The inability of any counterparty to perform under their contractual obligations over the duration of the contracts would have significant adverse financial and operational impacts on the Authority.

5. BONDS PAYABLE

On August 1, 2006, the Authority issued revenue bonds in the amount of $223,705,000 with an initial term of ten years related to the LMNGA Gas Project No. 1 (See Note 3). The revenue bonds do not constitute a debt, liability, or moral obligation of the State of Louisiana or any political subdivision thereof and are limited obligations of the Authority, payable only from the income, revenues and receipts derived from the sale of the prepaid natural gas supply, the interest rate swap agreement, the commodity hedge agreement, and other investments held under and pursuant to the trust indentures.

5. **BONDS PAYABLE** (continued)

The assets generated with the proceeds of these bonds are pledged as collateral for the payment of principal and interest on the bond indebtedness of only the Project. The ability of the Project to meet the debt service requirements on the bonds is dependent upon the ability of the members participating in the Project to generate sufficient funds to purchase their respective contractual volumes of natural gas pursuant to the respective supply agreements and financial performance of contract counterparties described in Notes 3 and 4.

The Authority has entered into interest rate swap Agreement with JPMorgan Chase Bank to reduce its interest rate risk by effectively fixing the interest rate to be incurred by the Authority over the terms of the bond (see Note 4). Under this agreement, the Authority pays the counterparty interest payments based upon a fixed interest rate of 4.467%, while the counterparty makes payments to the Authority based on a floating rate of interest. The intention of the swap agreement was to effectively change the bond's variable interest rate to a synthetic fixed rate of 4.517%, excluding other fees associated with the bonds. Additionally, the Authority pays the counterparty a fee equal to 0.05% per annum of bonds outstanding. Under the terms of the swap agreement effective August 1, 2006, the Authority pays a fixed rate of 4.517% and the swap counterparty will pay a variable rate based upon the SIFMA, formerly USD-BMA, Municipal Swap Index plus 0.49% which was 0.62% and 0.59% at December 31, 2012 and 2011, respectively. The cost of this swap agreement is included in interest expense.

As of December 31, 2012 and 2011, accrued interest payable on the bonds was $1,763,190 and $2,188,915, respectively. For the years ended December 31, 2012 and 2011, interest expense related to these bonds was $4,998,222 and $6,052,932, respectively. Interest expense includes the amortization of deferred financing costs of $170,676 and $207,330 for the years ended December 31, 2012 and 2011, respectively. Interest and principal payments are payable semiannually on each February 1 and August 1. The maximum interest rate due on the bonds is 8%. The bonds mature August 1, 2016 and are subject to redemption and mandatory sinking fund redemptions.

At December 31, 2012 and 2011, Louisiana Municipal Natural Gas Purchasing and Distribution Authority Revenue Bonds outstanding were as follows:

	2012	2011
Series 2006 LMNGA Gas Project No. 1 dated August 1, 2006, due and term to August 1, 2016, bearing a variable rate of interest	$ 93,680,000	$ 116,300,000

As of December 31, 2012 and 2011, the interest rate swap agreement had an estimated negative fair value of $7,317,500 and $10,054,500, respectively. This mark-to-market valuation represents estimates of the amounts that would be paid or received for replacement transactions.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, including but not limited to failure to pay, bankruptcy, and rating downgrade. Either party may terminate the swap if the other party fails to perform under the terms of the contract. If either swap is terminated, the variable rate bonds would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. As of December 31, 2012, the counterparty was rated A1 according to Moody's and A according to Standard & Poor's and no liability for termination of the contract has therefore been recorded.

5. BONDS PAYABLE (continued)

Using market based interest rates as of December 31, 2012, debt service requirements of the variable rate debt and net swap payments, assuming current interest rates remain the same for their term. As rates vary, variable rate bond interest payments and net swap payments will vary.

The bonds are subject to mandatory sinking fund redemption on August 1 of each bond year commencing on August 1, 2007. The minimum debt service payments over the life of the bonds are scheduled to occur as follows (in thousands):

Year Ending December 31	Principal	Interest*	Total
2013	$ 22,645,000	$ 3,805,328	$ 26,450,328
2014	22,950,000	2,776,713	25,726,713
2015	23,450,000	1,730,651	25,180,651
2016	24,635,000	649,112	25,284,112
Total	$ 93,680,000	$ 8,961,804	$ 102,641,804

* Computed using fixed rate of interest as described above through the use of the interest rate swap.

6. LINES OF CREDIT

The Authority has previously entered into two lines of credit with JPMorgan Chase Bank. The first line of credit is available to the Requirements Gas Fund and has a credit limit of the lesser of $750,000 or 95% of the accounts receivable balance for this Fund. As of December 31, 2012 and 2011, The Authority had no outstanding balance on this line of credit. The second line of credit is available to the LMNGA Gas Project No. 1 Fund and has a credit limit of $1,000,000. As of December 31, 2012 and 2011, the Authority had no outstanding balance on this line of credit. Both lines of credit bear interest at the prime rate, as determined annually by JPMorgan Chase, plus 1.5%, which was 4.75% at December 31, 2011. Each line is secured by the accounts receivable balances of the respective Funds and matured on July 31, 2012. The JPMorgan Chase Bank lines were not renewed after July 31, 2012.

The Authority obtained various approvals and amended under the LMNGA Gas Project No. 1 to replace JPMorgan Chase Bank and to enter into one new line of credit with Louisiana Municipal Association with a credit limit of $500,000. As of December 31, 2012, the Authority had no outstanding balance on this line of credit. The line of credit bears interest at the lesser of the prime rate plus 1.00%, which was 4.25% at December 31, 2012, and the maximum rate of 6% at December 31, 2012. This line is secured by the accounts receivable of the Authority and matures on August 1, 2016.

7. PARTICIPANT REIMBURSEMENT

In accordance with supply agreements executed in conjunction with LMNGA Gas Project No. 1, participating members of LMNGA Gas Project No. 1 obtain initial discounts of $0.10 per MMBtu upon monthly purchase of natural gas. Additionally, the Authority is required to refund, if available, a portion of the cost paid by the participants subsequent to the end of the bond year at July 31. This calculation is based upon excess revenues less annual expenses, as defined in the supply agreements, on a pro-rata basis to each participant based upon the fraction of the prepaid natural gas that each participant was contractually required to purchase. For each of the years ended December 31, 2012 and 2011 the Authority has estimated approximately $156,000, respectively, is due to each of members that is accrued and included in accounts payable and other liabilities related to participant reimbursements.

8. U.S. GOVERNMENT ARBITRAGE REBATES

A computation is required to be made at the end of each bond year, which is payable at the end of the fifth bond year, every five years thereafter, and upon final maturity of the bonds, to calculate the amount, if any, that is to be rebated to the U.S. Government for the difference in the investment yield and the bond yield, in order for the Program to maintain its tax exempt status. The arbitrage rebate owed to the U.S. Government has been estimated to be approximately $43,000 at March 1, 2011. The Authority is recognizing the estimated arbitrage payable over the term of the Gas Project No. 1 and recorded accrued arbitrage payable of $17,200 and $9,250 at December 31, 2012 and 2011, respectively.

9. SUBSEQUENT EVENTS

Management has evaluated subsequent events through the date that the financial statements were available to be issued, which was June 3, 2013, and determined that there were no significant subsequent events that required disclosure in the financial statements. No subsequent events occurring after this date have been evaluated for inclusion in these financial statements.

SUPPLEMENTARY INFORMATION

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF NET POSITION
DECEMBER 31, 2012

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Current assets:			
Cash	$ 433,938	$ 2,111,224	$ 2,545,162
Accounts receivable, net	1,382,147	4,481,331	5,863,478
Investments	-	4,224,518	4,224,518
Accrued interest receivable	-	75,114	75,114
Prepaid insurance	11,090	-	11,090
Prepaid natural gas purchases, current portion	-	22,675,245	22,675,245
Total current assets	1,827,175	33,567,432	35,394,607
Other assets:			
Investments, restricted	-	1,605,158	1,605,158
Deferred financing costs, net of accumulated amortization	-	310,891	310,891
Prepaid natural gas purchases	-	63,445,673	63,445,673
Total other assets	-	65,361,722	65,361,722
Total assets	1,827,175	98,929,154	100,756,329
Deferred outflows:	-	-	-
Total assets and deferred outflows	$ 1,827,175	$ 98,929,154	$ 100,756,329
Current liabilities			
Accounts payable and other liabilities	$ 1,454,715	$ 164,536	$ 1,619,251
Interest payable	-	1,763,190	1,763,190
Bonds payable, current portion	-	22,645,000	22,645,000
Total current liabilities	1,454,715	24,572,726	26,027,441
Long-term liabilities			
Bonds payable	-	71,035,000	71,035,000
Total liabilities	1,454,715	95,607,726	97,062,441
Deferred inflows:	-	-	-
Net position - unrestricted	372,460	-	372,460
Net position - restricted bond indenture	-	3,321,428	3,321,428
Total net position	372,460	3,321,428	3,693,888
Total liabilities, deferred inflows and net position	$ 1,827,175	$ 98,929,154	$ 100,756,329

See accompanying independent auditors' report.

THE LOUISIANA MUNICIPAL NATURAL GAS
PURCHASING AND DISTRIBUTION AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2012

	Requirements Gas Fund	LMNGA Gas Project No. 1 Fund	Total
Operating revenues:			
Gas sales	$ 12,512,819	$ 15,111,400	$ 27,624,219
Membership dues	493,452	-	493,452
Legal fees billed	54,763	-	54,763
Late charges	1,812	-	1,812
Less: prepay member discount	-	(739,004)	(739,004)
Total operating revenues	13,062,846	14,372,396	27,435,242
Operating expenses:			
Cost of natural gas	12,487,439	9,874,297	22,361,736
Purchase agent fee	328,952	-	328,952
Management fee	136,840	-	136,840
Interest expense	-	4,998,222	4,998,222
Legal and professional fees	99,873	34,244	134,117
Miscellaneous expenses	50,276	3,813	54,089
Arbitrage rebate expense	-	8,592	8,592
Total operating expenses	13,103,380	14,919,168	28,022,548
Operating loss	(40,534)	(546,772)	(587,306)
Other revenues:			
Interest income	2,401	632,557	634,958
Change in net position	(38,133)	85,785	47,652
Net position, beginning of year	410,593	3,235,643	3,646,236
Net position, end of year	$ 372,460	$ 3,321,428	$ 3,693,888

See accompanying independent auditors' report.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
The Louisiana Municipal Natural Gas
Purchasing and Distribution Authority
Baton Rouge, Louisiana

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements Louisiana Municipal Natural Gas Purchasing and Distribution Authority (the Authority), which comprise the statement of net position as of and for the year ended December 31, 2012, and the related statement of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 3, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Postlethwaite & Netterville

Baton Rouge, Louisiana
June 3, 2013

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